

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6504**

**BILL NUMBER:** HB 1364

**NOTE PREPARED:** Dec 21, 2008

**BILL AMENDED:**

**SUBJECT:** Income Tax Deduction for Certain Scholarship Uses.

**FIRST AUTHOR:** Rep. Crouch

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that an individual may deduct from adjusted gross income the part of any scholarship, fellowship, prize, or award that the individual spends during a taxable year for housing while the individual is enrolled as a student at a postsecondary educational institution.

**Effective Date:** January 1, 2010.

**Explanation of State Expenditures:** The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new deduction. The Department's current level of resources should be sufficient to implement this change.

**Explanation of State Revenues:** *Summary-* This bill provides an Adjusted Gross Income (AGI) tax deduction to individual taxpayers who receive scholarships, fellowships, prizes, or awards while enrolled in postsecondary institutions beginning in tax year 2010. The tax deduction will decrease revenue to the General Fund by an indeterminable amount beginning in FY 2011. Most scholarships and fellowships cover tuition expenses, so the revenue loss is expected to be minimal.

**Background Information-** Currently, scholarship funds used for room and board expenses are included as income in determining a taxpayer's federal adjusted gross income (the starting point for the AGI Tax). Only scholarship money used to pay for tuition, books, and fees are excluded from federal adjusted gross income. According to the Indiana Commission for Higher Education (ICHE), the current average room and board expense at public higher education institutions in Indiana is about \$6,900. Data was not available for private higher education institutions in Indiana. Based on the average cost of room and board, the deduction could

reduce the tax liability of an Indiana resident student by \$235. The value of each deduction ultimately depends on the amount of the student's scholarship that is designated for room and board expenses. The ICHE does not have information on the number of Indiana students who have received scholarships at Indiana universities which cover room and board expenses. If 500 Indiana resident students receive \$6,900 in scholarship funds designated for room and board expenses, there would be an annual state revenue loss of \$117,000 in Individual AGI Tax revenue. It is important to note that any revenue loss which might result from this exemption may be mitigated if some college students are not currently filing federal or state income tax returns.

The amount of the deduction is equal to the amount of scholarships, fellowships, prizes, or awards spent for housing costs during a taxable year, and may not exceed the total amount of the awards included in the taxpayer's AGI for the taxable year. Revenue from the AGI Tax on individuals is distributed in the state General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with local option income taxes.

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